



# **Commonwealth of Kentucky**

## **Public Employee Health Insurance Program**

**February 17, 2004**



# Agenda

- **Introduction and overview**

**Budget Director Cowgill**

- **Plan concept**

**Commissioner Ramsey**

- **Flex plan savings**

**Budget Director Cowgill**



# Program goals

- **Increase quality of healthcare and improve impact of healthcare expenditures on health**
- **Encourage individual responsibility in lifestyle choices**
- **Move from illness model to wellness model**
- **Make healthcare plan family-friendly**
- **Provide fair treatment to employees by market standards**
- **Plan a program which is affordable and sustainable to the Commonwealth**



# Facts

**If the plan is unchanged, then in 2004-2006  
biennium**

**The Commonwealth bears an additional  
\$231 million**

**and**

**State and school employees bear \$200 per  
month in CY05 (for ParentPlus PPO A coverage)**



# Facts

	2003 Southern Large Employers	2003 State Employers
Annual deductible (single/family)	\$300/\$750	\$250/\$600
Hospital services	20%	20%
Physician office	87% apply co-pay \$20 median	54% apply co-pay \$15 median
Annual out-of-pocket limit	\$1,750 per person	\$1,250 per person
Rx – retail		
➤ Generic	\$10	\$ 9
➤ Brand	\$21	\$19
➤ Non-formulary	\$37	\$35
Employee Contributions	<i>average</i>	<i>average</i>
➤ Employee	\$ 60	\$ 56
➤ Family	\$255	\$233
Changes Planned for 2004		
➤ increased 'ee contrib. %	55%	32%
➤ increased 'ee cost-sharing	45%	39%



# Facts

## Single coverage

- **100% paid by the Commonwealth**
- **80% of states require employee contribution for single coverage**
- **91% of large Southern employers require single contribution**



# Facts

## Dependent coverage

- **100% paid by state and school employees**
- **88% of state employers provide supplement for dependent coverage**



# Facts

## Health insurance waivers

- **\$234 monthly Commonwealth contribution to healthcare flexible spending account**
- **10% or fewer of states provide alternative benefit to waivers**
- **11% of large Southern employers provide alternative to waivers**
- **Average benefit - \$50 - \$75 monthly**

**No change in 5 years**



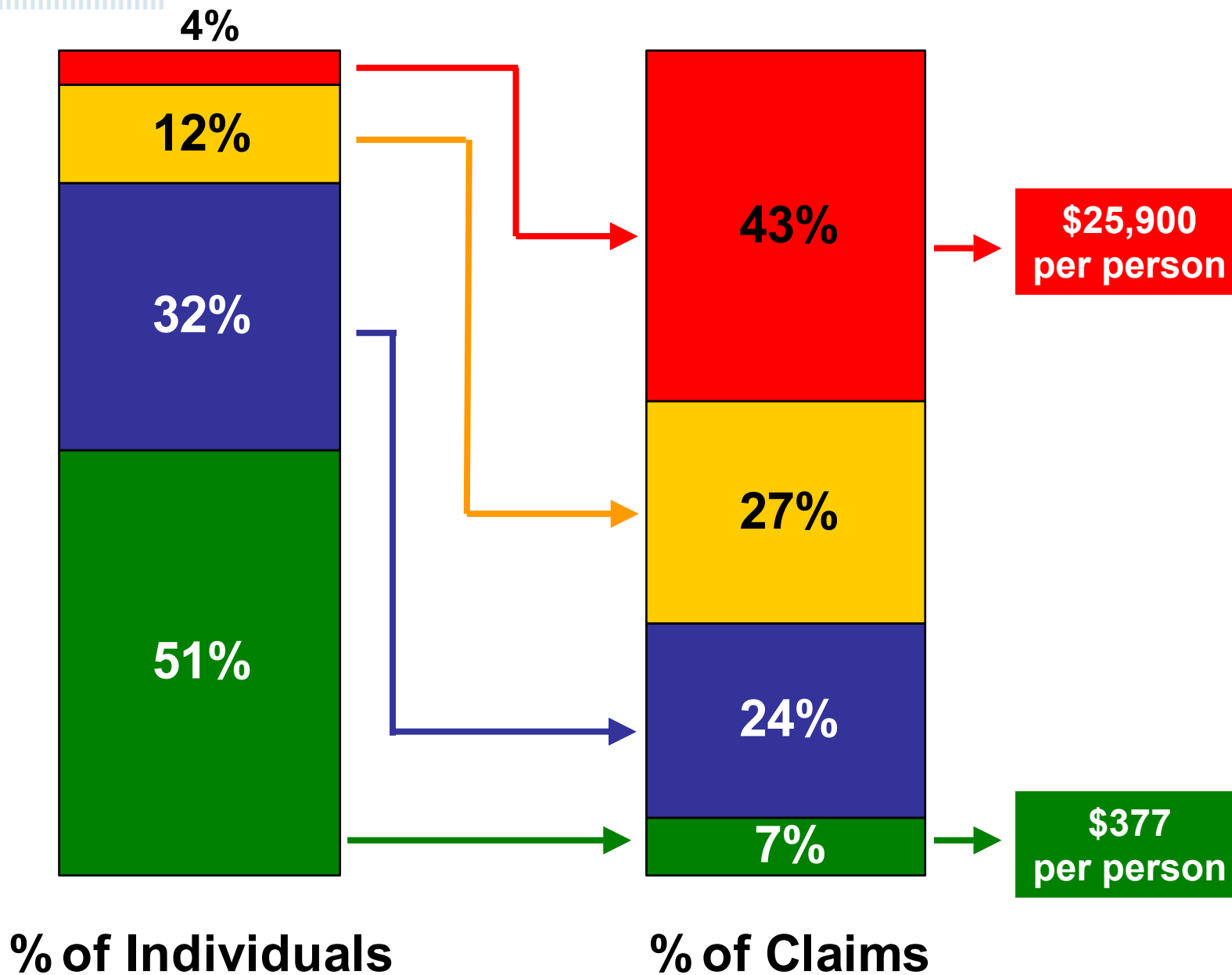


# Options

1. ~~Increase taxes by \$231 million~~
2. ~~Cut government programs by \$231 million~~
3. ~~Dramatically reduce benefits under the plan~~
4. **Balanced approach**
  - a. Share the premium cost increase with the employees,
  - b. Revise deductibles and co-pays,
  - c. Reduce the flex spending deposit for employees who “opt out,” and
  - d. Develop programs for improving efficiency of healthcare expenditures



# Commonwealth 2002 Allowed Charge Distribution





# Planned Strategy Overview

## Revise Health Plan Provisions

- Co-pays → co-insurance
- Effective preventive care covered at 100%
- Limits to protect members with high Rx or overall costs
- 3 PPO choices
- Index fixed \$ amounts

## Maintain Health/ Minimize Illness Impact

- Preventive care reminders
- Disease management for top PEHI disease states



## Restructure Commonwealth Funding

- Employees contribute towards single plan coverage
- Explicit dependent subsidy
- Lower healthcare FSA funding for health insurance waivers

## Increase Health Awareness Focus

- Non-smoker premium incentive
- Health risk assessments available to all members
- Health education programs (in conjunction with HHS)



# Planned Strategy

## *Provide Consumer-Driven Healthcare Policy*

- First dollar coverage for effective preventive services
  - with annual dollar limit per covered individual
  - immunizations
- Deductible applies to all services other than Rx
- Fixed dollar co-payments → co-insurance
  - percentage of discounted charge
  - out-of-pocket limits to protect members with large expenses



# Planned Strategy

## *Address Affordability*

- Salary-based single coverage premium contribution
  - > 50% of state and school district employees will pay less than \$10 weekly
  - average entry-level food service worker - \$11 monthly
  - average superintendent - \$94 monthly
- Decrease employee contribution for Parent Plus coverage by 20% - 35% from what it would have been
- Keep healthcare flexible spending account contribution for those waiving coverage well above average
- Offer lower cost option



# **Planned Strategy**

## ***Focus on Quality of Health***

- Premium incentive for non-smokers
- Health risk assessments
- Disease management
- Education



# Summary

- Avoid \$177 million of additional expense – prevent tax increase
- Competitive, sustainable coverage
- More family friendly
- Single coverage contribution will not exceed 1.5% of pay for full-time employees



# **Flex spending savings**

- **Benefit package is same for state employees and school employees**
- **Previously, budgeted cost increases have been identical for both groups**
- **Governor's budget anticipated 4.6% increase in government contribution in FY05 and 6.6% increase in FY06**
- **These projections were based on detailed examination of state employee data**





# **Flex spending savings**

- **We have now examined detailed data for school employees**
- **Data shows significantly higher percentage of “opt-outs” among school employees than state employees**
- **Also, the number of school employees (about 95,000) is much greater than the number of state employees (about 37,000)**



# **Flex spending savings**

- **Opting-out results in savings to the government (now that flex spending deposits have been reduced from \$234 to \$100).**
- **This results in a revised projection of state government's contribution, which is \$27 million less than the original projection.**



# Proposed appropriations

	<u>FY 2005 (millions \$)</u>	<u>FY 2006 (millions \$)</u>
<b>K-12 Education</b>		
Professional Development	\$7.0	\$7.0
Teacher Academies	\$1.4	\$1.4
Gifted and Talented Programs	\$0.7	\$0.7
Virtual Learning	\$0.6	\$0.6
Read to Achieve	\$1.0	\$1.0
Everyone Reads Ramp –Up	\$0.5	\$0.5
Extended School Waivers	\$0.75	\$1.5
Family Literacy – Read to Achieve		\$0.5
<b>Postsecondary Education</b>		
KCTCS – Open 7 New Facilities	\$1.3	



# Premium contributions

<b>Fiscal Year</b>	<b>Commonwealth Contribution (million \$)</b>	<b>Employee Contribution (million \$)</b>	<b>Total Contribution (million \$)</b>
FY 2000	\$325.6	\$0.0	\$325.6
FY 2001	\$365.9	\$0.0	\$365.9
FY 2002	\$410.8	\$0.0	\$410.8
FY 2003	\$409.4	\$0.0	\$409.4
FY 2004 Budgeted	\$450.3	\$0.0	\$450.3
FY 2005 Estimated	\$464.1	\$24.2	\$488.3
FY 2006 Estimated	\$489.2	\$51.5	\$540.7